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Indiana
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July 16, 2004

VIA E-MAIL

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

Re: Analysis of the Form A Statement regarding the Proposed Acquisition of Safeco Life Insurance Company and Safeco National Life Insurance Company ("Report")

Dear Jim:

We have been engaged to serve as legal analyst to the Office of Insurance Commissioner for the State of Washington ("OIC") in connection with its review of the proposed acquisition of Safeco Life Insurance Company and Safeco National Life Insurance Company, both Washington domestic insurance companies (together, the "Domestic Insurers") by Occum Acquisition Corp. ("Occum"), White Mountains Insurance Group, Ltd. ("White Mountains") and White Mountains Re Group, Ltd. (collectively, the "Acquiring Parties") (the "Proposed Acquisition").

Since June 11, 2004, we have reviewed a number of documents and agreements material to the Proposed Acquisition including, but not limited to, the Form A Statement dated April 9, 2004, filed by the Acquiring Parties (including exhibits thereto) and supplemented on July 13, 2004, financial statements, transaction agreements, affiliated agreements, annual reports to management, disclaimers of affiliation, analyses prepared by advisors to certain parties to the transaction, and other supplemental information. On July 12, 2004, we met with representatives from Safeco Corp. ("Seller"), White Mountains and the Domestic Insurers by teleconference.

Enclosed is our final report.

Limitations

Our Report is issued exclusively to OIC and only OIC may rely upon it. Recommendations as stated in the Report may be included, in whole or in part, in the public record upon which any

regulatory determination is made by the OIC regarding the Proposed Acquisition. Our Report may not otherwise be quoted, in whole or in part, without Baker & Daniels' prior written consent, and we will have no obligation to update the Report.

In completing our Report, Baker & Daniels relied on oral and written representations provided by senior management and other representatives and employees of the Acquiring Parties, the Domestic Insurers and Seller during the course of our investigation. In conducting our analysis, Baker & Daniels also relied on the sufficiency and accuracy of the information provided by the Acquiring Parties, the Domestic Insurers, Seller and OIC's other consultants and advisors. We make no representations as to the accuracy or validity of such representations and information.

We have appreciated the opportunity to work with you on this transaction. Should you have any questions about any of the issues addressed herein or information provided, please do not hesitate to call me at (317) 237-1204.

Very Truly Yours,


Shaun Healy Clifford

Enclosures

cc: Jim Odiorne
Jim Tompkins
Christina Beusch
Linda Dalton
Dana Rudmose
Mark Noller

**Office of Insurance Commissioner
for the State of Washington**

**Analysis of the Form A Statement
regarding the Proposed Acquisition of Control of
Safeco Life Insurance Company
and
Safeco National Life Insurance Company
by
Occum Acquisition Corp.
White Mountains Insurance Group, Ltd.
and
White Mountains Re Group, Ltd.**

Dated July 16, 2004

Submitted by:

**Shaun Healy Clifford
Lawrence J. Stern
Jason D. Kimpel**

Baker & Daniels

I. INTRODUCTION

Baker & Daniels has been engaged by the Office of the Washington Insurance Commissioner (the "OIC") to assist in evaluating the proposed acquisition (the "Proposed Acquisition") of control of Safeco Life Insurance Company and Safeco National Life Insurance Company (the "Domestic Insurers") by Occum Acquisition Corp., White Mountains Insurance Group, Ltd. and White Mountains Re Group, Ltd (collectively, the "Acquiring Parties") consistent with the standards of review set forth in Chapter 48.31B RCW. Accordingly, Baker & Daniels has analyzed documents submitted by the Acquiring Parties and the Safeco entities (pursuant to Chapter 48.31B RCW) to determine whether the Proposed Acquisition complies with all requirements of Title 48, Title 284 WAC, and other applicable Washington statutes and regulations. Baker & Daniels has also assisted the OIC staff and its other advisors in their evaluation of the proposed transaction.

II. SAFECO'S CURRENT LIFE AND INVESTMENT BUSINESS

Safeco Corporation, a Washington corporation with headquarters in Seattle ("Safeco"), operates the business of selling insurance and investment products through a national network of independent agents, brokers and financial advisors. Safeco's business is divided into two major areas: (i) Property & Casualty and (ii) Life & Investments. Safeco Life & Investments consists of several insurance and financial services companies, including Safeco Life Insurance Company, a Washington stock insurance company ("SLIC") and its wholly owned subsidiaries, Safeco National Life Insurance Company, a Washington insurer ("SNLIC"), First Safeco National Life Insurance Company of New York, a New York insurer, and American States Life Insurance Company, an Indiana insurer; as well as other wholly owned subsidiaries of Safeco. SLIC is among the nation's largest life insurance companies, a pioneer in the structured settlement business, and one of the leading providers of self-funded employee health care plans. Collectively, Safeco Life & Investments provides a variety of individual life insurance and group life and health insurance, retirement services, annuities, mutual funds, and separately managed accounts.

On September 29, 2003, Safeco publicly announced its decision to sell its Life & Investments business. According to Safeco's Form 10-K for the year ended December 31, 2003,

four critical factors were considered which lead to Safeco's decision to sell its Life & Investments business: (i) its view of the relative future earnings power of its Property & Casualty business versus the earnings power of its Life & Investments business; (ii) the value Safeco places on focus and its view that focus and discipline can offset risk resulting from Property & Casualty business pricing cycles; (iii) the cost of complexity to Safeco overseeing diverse businesses; and (iv) its observations that its competitors in the Life & Investment business had been delivering better financial results.

III. DESCRIPTION AND HISTORY OF WHITE MOUNTAINS

White Mountains Insurance Group, Ltd. ("White Mountains") was originally formed as a Delaware corporation in 1980. In October 1999, White Mountains completed a corporate reorganization that changed its domicile from Delaware to Bermuda. White Mountains' principal businesses of property and casualty insurance and reinsurance are conducted through its subsidiaries and affiliates. White Mountains' headquarters is located in Hamilton, Bermuda, and its principal executive office is located in Hanover, New Hampshire.

White Mountains operates its business through distinct reportable segments which include OneBeacon, Reinsurance and Other Operations. The OneBeacon Insurance Group LLC family of companies consists of several U.S.-based property and casualty insurance writers, substantially all of which operate in a multi-company pool (collectively "OneBeacon"). OneBeacon was acquired by White Mountains from Aviva plc (formerly CGNU plc) on June 1, 2001.

White Mountains' reinsurance operations are conducted primarily through Folksamerica Holding Company Inc. (together with its reinsurance subsidiary, Folksamerica Reinsurance Company, "Folksamerica"). Folksamerica became a wholly owned subsidiary of White Mountains in 1998. In connection with the acquisition of OneBeacon, Folksamerica was contributed to OneBeacon. However, OneBeacon and Folksamerica are run as separate entities, with distinct operations, management and business strategies. White Mountains' reinsurance operations also include its wholly owned subsidiaries, White Mountains Underwriting Limited (domiciled in Ireland), White Mountains Underwriting (Bermuda) Limited, and Fund American Reinsurance Company Ltd., as well as its unconsolidated investment in Montpelier Re Holdings Ltd., a Bermuda-domiciled reinsurance holding company. Moreover, on December 9, 2003,

White Mountains entered into a definitive agreement with ABB Ltd. to acquire the Sirius International Insurance Corporation, an insurance and reinsurance organization based in Sweden ("Sirius"). In April 2004, White Mountains reorganized its reinsurance operations to form a Bermuda holding company, White Mountains Re Group Ltd. ("White Mountains Re").

White Mountains' other operations include the International American Group, Inc. and Esurance Insurance Company ("Esurance"). The International American Group, Inc., which was acquired by White Mountains in 1999, consists of American Centennial Insurance Company and British Insurance Company of Cayman and, prior to its sale in January 2004, also included Peninsula Insurance Company. Esurance, on the other hand, is an internet-based personal automobile insurance company.

On June 29, 2004, Berkshire Hathaway Inc. ("Berkshire Hathaway") completed its exercise of warrants to purchase 1,722,000 shares of common stock of White Mountains. Following its exercise, Berkshire Hathaway became the holder of approximately 16% of White Mountains' issued and outstanding shares of common stock. Berkshire Hathaway had previously acquired these warrants in connection with the financing for White Mountains' acquisition of OneBeacon.

IV. BRIEF DESCRIPTION OF THE TRANSACTION

The Deal

On March 15, 2004, Safeco entered into a definitive agreement to sell its Life & Investment operations to a group of investors led by White Mountains, Berkshire Hathaway and Franklin Mutual Advisers, LLC ("Franklin Mutual"). The Stock Purchase Agreement, dated as of March 15, 2004 (the "Stock Purchase Agreement"), by and among Safeco, and its wholly owned subsidiary General America Corporation, White Mountains and Occum Acquisition Corp., a Delaware corporation and wholly owned subsidiary of White Mountains ("Occum"), provides that Safeco will sell to Occum all of the issued and outstanding shares of capital stock of each of the Safeco subsidiaries that, collectively, make up Safeco's Life & Investment business: SLIC; American States Life Insurance Company (a wholly owned subsidiary of SLIC); First Safeco National Life Insurance Company of New York (a wholly owned subsidiary of SLIC); SNLIC (a wholly owned subsidiary of SLIC); Safeco Assigned Benefits Service Company; Safeco Investment Services Inc. (a wholly owned subsidiary of General America

Corporation); Safeco Administrative Services, Inc.; Employee Benefits Consultants, Inc. (a wholly owned subsidiary of Safeco Administrative Services, Inc.); Wisconsin Pension and Group Services, Inc. (a wholly owned subsidiary of Safeco Administrative Services, Inc.); Safeco Asset Management Company; Safeco Securities, Inc.; and Safeco Services Corporation (collectively, the "Acquired Companies"). Under the Stock Purchase Agreement, the purchase price for the Acquired Companies is \$1.35 billion, subject to adjustment, based on the June 30, 2004 statutory book value of SLIC and its subsidiaries. The purchase price will be financed by Occum through (i) the proceeds of an issuance of shares of Occum common stock to equity investors, and (ii) a senior unsecured revolving credit facility.

Financing

Occum was organized by White Mountains specifically for the purpose of effecting the acquisition of the Acquired Companies and will be owned (as of the closing of the acquisition of the Acquired Companies (the "Closing")) by a group of equity investors led by White Mountains Re, Berkshire Hathaway and Franklin Mutual. Pursuant to separate subscription agreements, each dated as of March 8, 2004, by and between Occum and each of the equity investors, Occum will issue and sell its shares of common stock to the equity investors two days prior to the Closing. Additionally, Occum will issue warrants to purchase additional shares of Occum common stock to each of White Mountains Re and Berkshire Hathaway. These warrants, which expire on the tenth anniversary of their issuance, will allow each of White Mountains Re and Berkshire Hathaway to purchase 1,090,560 additional shares of Occum common stock at an exercise price of \$100 per share.

Occum has also entered into a \$370,000,000 Credit Agreement, dated as of June 14, 2004, with a syndicate of lenders arranged by Banc of America Securities, LLC, and with Bank of America, N.A. acting as administrative agent (the "Credit Agreement"). Pursuant to the Credit Agreement, the syndicate of lenders agree to make revolving credit loans to Occum during a period of five years from the date of closing of the Credit Agreement. The Credit Agreement is unsecured.

Transaction Summary

In short, Safeco will sell the Acquired Companies, including SLIC and its wholly owned subsidiaries, to Occum pursuant to the Stock Purchase Agreement. As of the Closing, Occum will be owned by the equity investors led by White Mountains Re, Berkshire Hathaway

and Franklin Mutual. White Mountains Re intends to hold its equity ownership interest in Occum in the investment portfolio of its wholly owned subsidiary, Sirius, and such equity ownership interest will constitute approximately 18.8% of Occum. Berkshire Hathaway intends to hold its equity ownership interest in Occum in one or more of its wholly owned subsidiaries from time to time in the normal course of managing its investment portfolio, and such equity ownership interest will also constitute approximately 18.8% of Occum. Franklin Mutual intends to hold its equity ownership interest in Occum in several of its mutual funds, and such equity ownership interest will constitute approximately 11.7% of Occum. No equity investor in Occum other than White Mountains Re, Berkshire Hathaway or Franklin Mutual will own 10% or more of the voting securities of Occum. However, if White Mountains Re and Berkshire Hathaway exercise their warrants for additional Occum shares, then White Mountains Re and Berkshire Hathaway will each own approximately 24% of Occum. As a result, Franklin Mutual's equity ownership interest in Occum would be reduced to less than 10%.

V. STATUTORY STANDARD OF REVIEW

The Commissioner is required to approve a proposed acquisition of control or merger unless he makes a factual determination that any one of the criteria set forth in RCW 48.31B.015(4)(a) exists. The Acquiring Parties are not required to *prove* that any of these criteria do not exist; however, if the Commissioner and his consultants determine that, in fact, one or more of the criteria do exist, then the Acquiring Parties would be required to overcome that finding.

The six criteria, or standards, set forth in RCW 48.31B.015(4)(a) are listed below.

1. After the change in control, SLIC and SNLIC would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is presently licensed.
2. The effect of the Proposed Acquisition would be substantially to lessen competition in insurance in the State of Washington or tend to create a monopoly therein.
3. The financial condition of the Acquiring Parties is such as might jeopardize the financial stability of SLIC or SNLIC, or prejudice the interest of their policyholders.

4. The plans or proposal (if any) that the Acquiring Parties have to liquidate SLIC and/or SNLIC, sell their assets, consolidate or merge them with any person, or to make any other material changes to their business or corporate structure or management, are unfair and unreasonable to policyholders of SLIC and SNLIC and are not in the public interest.
5. The competence, experience, and integrity of those persons who would control the operations of SLIC and SNLIC are such that it would not be in the interest of policyholders of SLIC and SNLIC and of the public to permit the Proposed Acquisition.
6. The Proposed Acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

VI. SCOPE OF LEGAL CONSULTANTS' REVIEW

The Request for Proposal sent to potential bidders dated April 16, 2004 (the "RFP") requested proposals to assist the OIC with the evaluation of the proposed transactions in a manner consistent with the standards of review set forth in Chapter 48.31B RCW. Specifically, the RFP states that the provider of legal services will be asked to analyze the Form A Statement, the underlying transaction documents and related agreements and other documents to determine whether or not the Proposed Acquisition meets the criteria of RCW 48.31B.015(4)(a) and other applicable provisions of the Washington Insurance Statutes and Administrative Code. Pursuant to the OIC's directions, Baker & Daniels did not review the biographical affidavits filed in connection with the Form A for the Proposed Acquisition.

VII. REVIEW PROCEDURE

Baker & Daniels has reviewed the Form A Statement, including the exhibits thereto (excluding, however, the biographical affidavits), and has reviewed all additional materials which the OIC has delivered to Baker & Daniels through July 14, 2004. Attached hereto as **Exhibit A** is a list of all documents Baker & Daniels has reviewed in connection with its analysis of the Proposed Acquisition. Some of the documents listed were reviewed "in camera" at various law firm locations as designated by the disclosing party. Such documents reviewed "in camera" included annexes to the Transition Services Agreement, the Seller Disclosure Letter to the Stock Purchase Agreement, rating agency presentations, excerpts from

minutes of the Board of Directors of Safeco, and the Goldman Sachs fairness opinion rendered on behalf of Safeco.

In addition, Baker & Daniels conducted several telephonic interviews with key individuals representing White Mountains, Safeco and SLIC. For example, we interviewed David Foy, Chief Financial Officer of White Mountains; Randy Talbot, President and Chief Executive Office of SLIC and who will continue as such after the Closing; Roger Harbin, Executive Vice President of SLIC and who will continue as Chief Operating Officer of SLIC after the Closing; and James Ruddy, General Counsel of Safeco.

Finally, Baker & Daniels conducted independent research on Safeco and White Mountains by reviewing publicly available information.

VIII. ANALYSIS OF TRANSACTION -- DISCLAIMERS OF AFFILIATION

A. Definition of Acquiring Party

An Acquiring Party is one who is acquiring "control" of a domestic insurer. The term "control" is defined as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with or corporate office held by the person. Control is presumed to exist if a person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent or more of the voting securities of any other person." RCW 48.31B.005(2)

This presumption may be rebutted by a showing made in a manner similar to that provided by RCW 48.31B.025(11) that control does not exist in fact. On the other hand, the Commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support such determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

The specific requirements for a disclaimer of affiliation are set forth in WAC 284-18-430. Outside of the technical requirements (e.g., number and percentage of shares both held of record or beneficially owned), the applicable statutes and administrative regulations give little guidance as to the facts and circumstances necessary to rebut a statutory presumption of control.

A person disclaiming control must simply provide a statement as to why that person should not be considered to control the subject insurer – in effect, why that person does not possess, directly or indirectly, the power to direct or cause the direction of the management and policies of the insurer, whether through the ownership of voting securities, by contract (other than a commercial contract for goods or nonmanagement services), or otherwise.

B. Identification of Acquiring Parties to the Proposed Acquisition

1. Control of Occum

Upon Closing, Occum will have 10,649,000 common shares issued and outstanding out of a total of 15,000,000 common shares authorized. Berkshire Hathaway will own indirectly an estimated 2,000,000 Occum common shares or approximately 18.8% of Occum's expected total shares issued and outstanding at the time of Closing. In addition, Berkshire Hathaway will hold warrants to purchase an additional 1,090,560 Occum common shares. Berkshire Hathaway will not be obligated to exercise the warrants in whole or in part. If Berkshire Hathaway and White Mountains Re both exercise their warrants in full, Berkshire Hathaway's percentage of ownership will increase to approximately 24% of Occum's then outstanding common shares.

Also upon Closing, White Mountains Re will own indirectly an estimated 2,000,000 Occum common shares or approximately 18.8% of Occum's expected total shares issued and outstanding at the time of Closing. Like Berkshire Hathaway, White Mountains Re will also hold warrants to purchase an additional 1,090,560 Occum common shares. White Mountains Re will not be obligated to exercise the warrants in whole or in part. If White Mountains Re and Berkshire Hathaway both exercise their warrants in full, White Mountains Re's percentage of ownership will increase to approximately 24% of Occum's then outstanding common shares.

At Closing, Franklin Mutual, through a number of its mutual funds, will own an estimated 1,250,000 Occum's common shares, or approximately 11.7% of Occum's expected total shares issued and outstanding at the time of Closing. Franklin Mutual's percentage of ownership will be reduced to less than 10% on a fully converted basis if both Berkshire Hathaway and White Mountains Re exercise their warrants in full.

No other equity investor will own 10% or more of Occum's common shares.

2. **Control of White Mountains**

White Mountains is a publicly traded company and, as of February 27, 2004, had a total of 9,017,795 common shares issued and outstanding out of a total of 50,000,000 common shares authorized. White Mountains Re is a wholly owned subsidiary of White Mountains.

On March 15, 2004 (the date the Proposed Acquisition was announced publicly), Berkshire Hathaway did not own any common shares of White Mountains but, instead, held certain warrants giving it the right to purchase 1,724,200 White Mountains common shares. Also on March 15, 2004, Franklin Mutual, through a number of its mutual funds, was holder of record of 1,970,933 White Mountains common shares, or approximately 21.9% of the outstanding White Mountains common stock, and John J. Byrne was owner of record of approximately 11.5% of the outstanding White Mountains common stock. The remaining shares were owned by other investors, none of whom owned 10% or more.

On June 29, 2004, Berkshire Hathaway exercised its warrants for shares of White Mountains common stock. As a result, Berkshire Hathaway currently owns 1,724,200 shares of White Mountains common stock or approximately 16% of the issued and outstanding White Mountains common stock, Franklin Mutual's ownership interest was reduced to approximately 18.3%, and Mr. Byrne's ownership interest was reduced to approximately 9.7%.

The remaining issued and outstanding shares of White Mountains common stock are owned by other investors, none of whom owns 10% or more.

C. **Presumption of Control**

The Form A Statement dated April 9, 2004 identifies the Acquiring Parties -- Occum, White Mountains and White Mountains Re -- as the applicants that will acquire control of the Domestic Insurers. Under RCW 48.31B.005(2), control of the Domestic Insurers is also presumed to reside with Berkshire Hathaway and Franklin Mutual because of their ownership interests in Occum and White Mountains.

Berkshire Hathaway, Franklin Mutual and Mr. Byrne have each filed disclaimers to rebut any statutory presumption that they will control the Domestic Insurers.

D. Analysis of Disclaimers

1. John J. Byrne

As of April 9, 2004, the date of the Form A Statement, John J. Byrne held approximately 11.5% of the issued and outstanding shares of White Mountains common stock. However, following Berkshire Hathaway's exercise of its warrants on June 29, 2004, Mr. Byrne's ownership of White Mountains common stock was reduced to 9.7%, which is below the statutory presumption of control. In addition to his ownership interest in White Mountains common stock, Mr. Byrne also serves on White Mountains' Board of Directors.

Mr. Byrne's disclaimer of control, dated April 8, 2004, asserts that he does not control White Mountains for the following reasons:

- (i) Following Berkshire Hathaway's exercise of its warrants, Mr. Byrne no longer owns 10% or more of the common shares of White Mountains.
- (ii) Even if Mr. Byrne owned 10% or more of White Mountains' common shares, his ability to vote those shares is limited by White Mountains' Bye-Laws. White Mountains Bye-Law 47 ("Bye-Law 47") limits each shareholder's voting power, with respect to the election of directors, to less than 10% of the total votes conferred by all of White Mountains' outstanding shares.
- (iii) Mr. Byrne serves as one of the 12 directors of White Mountains, but he does not serve as Chairman of the Board of Directors or as an officer of White Mountains.¹
- (iv) Mr. Byrne does not have the actual power to direct or cause the direction of the management of White Mountains.

Given that Mr. Byrne no longer owns 10% or more of White Mountains' common shares, he is not presumed to control White Mountains under RCW 48.31B.005(2). Moreover, Mr. Byrne does not control White Mountains by virtue of his being a director, since the statutory definition of control does not include any power that results from an official position or

¹ However, Mr. Byrne serves as Chairman of the Executive Committee of the White Mountains Board of Directors.

corporate office. Mr. Byrne's disclaimer provides a reasonable basis for concluding that he does not, in fact, control White Mountains.

Recommended Action: Accept Mr. Byrne's Disclaimer of Affiliation from White Mountains. We recommend that such acceptance be reflected in the OIC's Order Approving (or Disapproving) the Proposed Acquisition.

2. **Franklin Mutual**

a. ***White Mountains***

As of April 9, 2004, the date of the Form A Statement, Franklin Mutual was owner of record of 1,970,933 shares of White Mountains common stock, or approximately 21.9%. Following Berkshire Hathaway's exercise of its warrants to purchase shares of White Mountains common stock on June 29, 2004, Franklin Mutual's ownership interest was reduced to 18.3%.

Franklin Mutual's disclaimer of control, originally dated April 8, 2004 and supplemented on July 13, 2004, asserts that it does not control White Mountains for the following reasons:

- (i) White Mountains is a widely held, publicly traded company having many shareholders.
- (ii) There is no material relationship or basis for affiliation between Franklin Mutual and White Mountains.
- (iii) Franklin Mutual is a passive investor and has no intention or power to direct or cause the direction of the management and policies of White Mountains.
- (iv) No individual affiliated with, or representative of, Franklin Mutual is or will be a member of White Mountains' Board of Directors or holds an officer position with White Mountains.
- (v) Franklin Mutual's ability to vote for directors is restricted by Bye-Law 47, which limits the voting power of any shareholder to less than 10% of the total voting rights conferred by all shares.

- (vi) No contract or agreement exists granting Franklin Mutual any contractual power to direct the management and policies of White Mountains.
- (vii) Unless Franklin Mutual were to enter into contractual arrangements with other shareholders, Franklin Mutual does not have the sole ability to dictate which individuals will serve on White Mountains' Board of Directors.
- (viii) Franklin Mutual does not have a contractual right to acquire, directly or indirectly, any additional White Mountains common shares or other voting securities of White Mountains or its affiliates.
- (ix) Franklin Mutual has dispersed its holdings in White Mountains common stock across several of its funds, none of which individually owns 10% of the White Mountains shares.

Unlike Mr. Byrne, Franklin Mutual's ownership interest in White Mountains exceeds the 10% threshold and gives rise to the statutory presumption of control. According to Franklin Mutual's disclaimer, however, no representative of Franklin Mutual sits on White Mountain's Board of Directors or serves as an officer of White Mountains. Franklin Mutual does not have the contractual power to direct the management or policies of White Mountains. More importantly, Franklin Mutual's ability to vote for directors is restricted by Bye-Law 47 for the reasons set forth above.

Franklin Mutual's disclaimer provides a reasonable basis for concluding that Franklin Mutual does not, in fact, control White Mountains, so long as (i) the voting restrictions in Bye-Law 47 remain in place, and (ii) Franklin Mutual continues to act as a passive investor and does not direct or cause the direction of the management and policies of White Mountains.

Recommended Action:

Accept Franklin Mutual's Disclaimer of Affiliation from White Mountains. We recommend that such acceptance be reflected in the OIC's Order Approving (or Disapproving) the Proposed Acquisition. In addition, we recommend that the Commissioner consider (i) requiring White Mountains to notify the Commissioner upon any amendment to the voting rights restriction currently present in Bye-Law 47, and (ii) prohibiting Franklin Mutual from

taking certain actions that would be inconsistent with holding the White Mountains shares as a passive investor.

b. *Occum*

As of the Closing, Occum will have 10,649,000 common shares issued and outstanding out of a total of 15,000,000 common shares authorized. Franklin Mutual, through a number of its mutual funds, will own, as of the Closing, an estimated 1,250,000 shares of Occum common stock, or approximately 11.7%. If Berkshire Hathaway and White Mountains Re each exercise their warrants in full, Franklin Mutual's percentage ownership in Occum will be reduced to less than 10%. However, neither Berkshire Hathaway nor White Mountains is obligated to exercise its warrants in whole or in part. Accordingly, pursuant to RCW 48.31B, Franklin Mutual will be presumed to have acquired control of Occum as of the Closing.

Franklin Mutual's disclaimer of control, originally dated April 8, 2004 and supplemented on July 13, 2004, asserts that it does not control Occum for the following reasons:

- (i) There will be no material relationship or basis for affiliation between Franklin Mutual and Occum or SLIC, other than Franklin Mutual's ownership of White Mountains common shares.
- (ii) Franklin Mutual is a passive investor and has no intention or power to direct or cause the direction of the management and policies of Occum.
- (iii) No individual affiliated with, or representative of, Franklin Mutual will be a member of Occum's Board of Directors or holds an officer position with Occum.
- (iv) No contract or agreement exists granting Franklin Mutual any contractual power to direct the management and policies of Occum.
- (v) Franklin Mutual will disperse its investment in Occum common stock across several of its funds, none of which will individually own ten percent of the Occum shares.²

As of the Closing, Franklin Mutual's ownership interest in Occum will exceed the 10% threshold and give rise to the statutory presumption of control. According to Franklin Mutual's disclaimer, however, no representative of Franklin Mutual will sit on Occum's Board of

² Exhibit 6 to the Form A Statement dated April 9, 2004, discloses those individual mutual funds/investment companies that will directly hold the Occum common stock and the number of shares of Occum common stock held by each.

Directors or will hold an officer position with Occum. Franklin Mutual will have no rights, contractual or otherwise, to vote on management decisions of Occum. Moreover, Franklin Mutual asserts that it is a passive investor with no intention to direct or cause the direction of the management and policies of Occum. In furtherance of this claim, Franklin Mutual notes that its ownership of Occum common stock will be dispersed throughout several of its mutual funds which will hold the stock as an investment. Although not reflected in its disclaimer, Franklin Mutual will have certain rights to acquire additional shares of Occum common stock in certain circumstances pursuant to that certain Shareholders Agreement, dated as of March 8, 2004, among Occum and each of the Occum shareholders ("Shareholders Agreement").

Franklin Mutual's disclaimer provides a reasonable basis for concluding that Franklin Mutual will not, in fact, control Occum, so long as (i) no representative of Franklin Mutual serves as a director or officer of Occum, (ii) Franklin Mutual obtains no contractual power to direct the management or policies of Occum, (iii) Franklin Mutual does not materially increase its ownership percentage in Occum and (iv) Franklin Mutual takes no action that would be inconsistent with holding its shares of Occum common stock as a passive investor.

Recommended Action:

Accept Franklin Mutual's Disclaimer of Affiliation from Occum. We recommend that while such acceptance be reflected in the OIC's Order Approving (or Disapproving) the Proposed Acquisition. In addition, we recommend the Commissioner consider (i) prohibiting representatives of Franklin Mutual from serving as directors or officers of Occum, (ii) prohibiting Franklin Mutual from obtaining contractual power to direct the management or policies of Occum, (iii) requiring Franklin Mutual to notify the Commissioner prior to its acquisition of additional Occum common stock, and (iv) prohibiting Franklin Mutual from taking certain actions that would be inconsistent with holding its Occum shares as a passive investor. These restrictions would be unnecessary if Franklin Mutual's ownership interest in Occum dropped below 10%.

3. **Berkshire Hathaway**

a. ***White Mountains***

On March 15, 2004 (the date the Proposed Acquisition was announced publicly), Berkshire Hathaway did not own any common shares of White Mountains but, instead, held certain warrants giving it the right to purchase 1,724,200 shares of White Mountains common stock. On June 29, 2004, Berkshire Hathaway exercised these warrants. As a result, Berkshire Hathaway currently owns 1,724,200 shares of White Mountains common stock, or approximately 16%. In addition, White Mountains has entered into, and in the future may enter into additional, material reinsurance contracts with subsidiaries of Berkshire Hathaway.

Berkshire Hathaway's disclaimer, originally dated April 9, 2004 and supplemented on July 13, 2004, asserts that it does not control White Mountains for the following reasons:

- (i) White Mountains is a widely held, publicly traded company having many shareholders.
- (ii) While there are material business relationships between White Mountains and certain insurance subsidiaries of Berkshire Hathaway, these contracts have been entered into in the ordinary course of business and are based on arm's length negotiations using prevailing market terms and conditions at the time of execution and are independent of Berkshire Hathaway's ownership interest in White Mountains.
- (iii) Berkshire Hathaway is a passive investor and has no intention or power to direct or cause the direction of the management and policies of White Mountains.
- (iv) No individual affiliated with, or representative of, Berkshire Hathaway is or will be a member of White Mountains' Board of Directors or holds an officer position with White Mountains.
- (v) No contract or agreement exists granting Berkshire Hathaway any contractual power to direct the management and policies of White Mountains.

- (vi) Berkshire Hathaway's ability to vote for directors is restricted by Bye-Law 47, which limits the voting power of any member to less than 10% of the total voting rights conferred by all shares.
- (vii) Berkshire Hathaway does not have a contractual right to acquire, directly or indirectly, any additional White Mountains common shares or other voting securities of White Mountains or its affiliates.
- (viii) Unless Berkshire Hathaway were to enter into contractual arrangements with other shareholders, Berkshire Hathaway does not have the sole ability to dictate which individuals will serve on White Mountains' Board of Directors.

Berkshire Hathaway's ownership interest in White Mountains exceeds the 10% threshold and gives rise to the statutory presumption of control. According to Berkshire Hathaway's disclaimer, however, no representative of Berkshire Hathaway sits on White Mountains' Board of Directors or serves as an officer of White Mountains. Berkshire Hathaway does not have any contractual power to direct the management and policies of White Mountains. Additionally, Berkshire Hathaway asserts that it is a passive investor with no intention to direct or cause the direction of the management and policies of White Mountains. Most importantly however, Berkshire Hathaway's ability to vote for directors is restricted by Bye-Law 47.

Berkshire Hathaway's disclaimer provides a reasonable basis for concluding that Berkshire Hathaway does not, in fact, control White Mountains, so long as (i) the voting restriction contained in Bye-Law 47 remains in place, (ii) no representative of Berkshire Hathaway serves as a director or officer of White Mountains, (iii) Berkshire Hathaway obtains no contractual power to direct the management and policies of White Mountains, and (iv) Berkshire takes no action that would be inconsistent with holding the White Mountains shares as a passive investor.

Recommended Action: Accept Berkshire Hathaway's Disclaimer of Affiliation from White Mountains. We recommend that such acceptance be reflected in the OIC's Order Approving (or Disapproving) the Proposed Acquisition. In addition, the Commissioner should consider (i) requiring White Mountains to notify the Commissioner upon any amendment to the voting rights restriction currently present in

Bye-Law 47, (ii) prohibiting a Berkshire Hathaway representative from serving as a director or officer of White Mountains, (iii) prohibiting Berkshire Hathaway from obtaining the contractual power to direct the management or policies of White Mountains, and (iv) prohibiting Berkshire Hathaway from taking certain actions that would be inconsistent with holding its White Mountains shares as a passive investor.

b. *Occum*

As of the Closing, Berkshire Hathaway will own indirectly an estimated 2,000,000 shares of Occum common stock, or approximately 18.8%. In addition, Berkshire Hathaway will hold warrants to purchase an additional 1,090,560 shares of Occum common stock. Berkshire Hathaway will not be obligated to exercise its warrants in whole or in part. If Berkshire Hathaway and White Mountains Re both exercise their warrants in full, Berkshire Hathaway's percentage of ownership will increase to approximately 24%. Accordingly, pursuant to RCW 48.31B, Berkshire Hathaway will be presumed to have acquired control of Occum at Closing.

Berkshire Hathaway's disclaimer of control, originally dated April 9, 2004 and supplemented on July 13, 2004, asserts that it does not control Occum for the following reasons:

- (i) There will be no material relationship or basis for affiliation between Berkshire Hathaway and Occum or Safeco Life, other than Berkshire Hathaway's ownership of White Mountains common shares.
- (ii) Berkshire Hathaway is a passive investor and has no intention or power to direct or cause the direction of the management and policies of Occum.
- (iii) No individual affiliated with, or representative of, Berkshire Hathaway will be a member of Occum's Board of Directors or holds an officer position with Occum.
- (iv) No contract or agreement exists granting Berkshire Hathaway any contractual power to direct the management and policies of Occum.
- (v) Other than the warrants discussed above, Berkshire Hathaway will not have a right to acquire, directly or indirectly, any additional shares of Occum common stock or other voting securities of Occum or its affiliates.

As of the Closing, Berkshire Hathaway's ownership interest in Occum will exceed the 10% threshold and give rise to a statutory presumption of control. In fact, Berkshire Hathaway's ownership interest will actually be greater than the 18.8% stated in the disclaimer because Berkshire Hathaway also owns 16% of White Mountains, which in turn will own 18.8% of Occum at Closing. For the same reason, Berkshire Hathaway's fully converted ownership interest will actually be greater than the 24% stated in the disclaimer if Berkshire Hathaway and White Mountains exercise their warrants to purchase additional shares of Occum common stock.

According to Berkshire Hathaway's disclaimer, however, no representative of Berkshire Hathaway will sit on Occum's Board of Directors or hold an officer position with Occum. Berkshire Hathaway will have no contractual power to direct the management or policies of Occum. Although Berkshire Hathaway asserts it will have no rights to acquire any additional Occum common stock, other than the warrants, Berkshire Hathaway will have certain rights to acquire additional shares of Occum common stock in certain circumstances pursuant to the Shareholders Agreement. Finally, Berkshire Hathaway asserts that it is a passive investor with no intention to direct the management and policies of Occum.

Berkshire Hathaway's disclaimer provides a reasonable basis for concluding that Berkshire Hathaway will not, in fact, control Occum, so long as (i) no representative of Berkshire Hathaway serves as a director or officer of Occum, (ii) Berkshire Hathaway obtains no power to direct the management or policies of Occum, (iii) Berkshire Hathaway does not materially increase its ownership percentage in Occum, and (iv) Berkshire Hathaway takes no action that would be inconsistent with holding its shares of Occum common stock as a passive investor.

Recommended Action:

Accept Berkshire Hathaway's Disclaimer of Affiliation from Occum. We recommend that such acceptance be reflected in the OIC's Order Approving (or Disapproving) the Proposed Acquisition. In addition, the Commissioner should consider (i) prohibiting a Berkshire Hathaway representative from serving as a director or officer of Occum, (ii) prohibiting Berkshire Hathaway from obtaining the power to direct the management or policies of Occum, (iii) requiring Berkshire Hathaway to notify the Commissioner prior to its acquisition of additional Occum

common stock other than through the execution of the warrants, and (iv) prohibiting Berkshire Hathaway from taking certain actions that would be inconsistent with holding its Occum shares as a passive investor.

IX. ANALYSIS OF TRANSACTION – FORM A STATEMENT AND RELATED MATERIALS

Because the Proposed Acquisition and all of the underlying transactions and agreements must satisfy certain standards, as set forth in RCW 48.31B.015(4)(a), we have prepared our analysis of the Proposed Acquisition with those standards in mind.

Standard 4(a)(i) -- After the change in control, the Domestic Insurers will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is presently licensed.

Our understanding from the Form A Statement is that the Domestic Insurers currently hold licenses for the life, health and annuity lines of business in a number of states. The state licenses held by the Domestic Insurers are listed in Part 2.17 of the Seller's Disclosure Letter to the Stock Purchase Agreement. Based upon Safeco's representations to the Acquiring Parties in such disclosure letter, we understand that the Domestic Insurers currently satisfy all of the statutory requirements necessary to maintain those licenses. However, Part 2.17 of the Seller's Disclosure Letter to the Stock Purchase Agreement represents that the Domestic Insurers may have to seek re-licensure as a result of the Proposed Acquisition in Colorado, Connecticut, Florida, and Michigan.

The Form A Statement represents that the Acquiring Parties have no plans or proposals to make any material changes to the business or corporate structure or management of the Domestic Insurers, such as liquidating the Domestic Insurers, selling their assets, or consolidating or merging them with any other entities. Therefore, barring any changes in the Acquiring Parties' corporate strategy as expressed in the Form A Statement and elsewhere, we have found no evidence that the Domestic Insurers should not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is presently licensed.

Recommended Action: We are not aware of any evidence that would support a finding that after the Proposed Acquisition, the Domestic Insurers would not be

able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is currently licensed to write. The OIC's Order Approving (or Disapproving) the Proposed Acquisition should find that, after the Proposed Acquisition, the Domestic Insurers will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which each is currently licensed to write.

Standard 4(a)(ii) – The effect of the Proposed Acquisition will not be to substantially lessen competition in insurance in the State of Washington or tend to create a monopoly therein.

In accordance with the provisions of RCW 48.31B.020(2)(b)(v), if, immediately after an acquisition of control: (i) the combined market share of the involved insurers does not exceed 5% in any market; (ii) there is no increase in the market share of the involved insurers in any line of business; or (iii) the combined market share of the involved insurers does not exceed 12% of the total market and the market share does not increase by more than 2% of the total market, then the transaction is excepted from the statutory "impact on competition" analysis.

White Mountains' current business operations are in the property/casualty insurance and reinsurance industries. As represented in its Management Reports and other regulatory filings, White Mountains' current business segments include (i) property/casualty insurance; (ii) reinsurance coverage; (iii) Esurance, Inc. -- a marketer of personal auto insurance products sold directly to customers on the internet or through select on-line agents; and (iv) other operations, consisting mainly of domestic and foreign holding companies.

Neither SLIC nor SNLIC underwrite or reinsure property/casualty insurance -- SLIC writes individual annuity and group accident and health coverage, while SNLIC writes ordinary life coverage.

Executive management from the Parties to the Proposed Acquisition confirmed during telephonic interviews that no overlap in the lines of insurance business written by White Mountains or the Domestic Insurers will exist in the State of Washington. Accordingly, the Proposed Acquisition does not appear to substantially lessen competition in the State of Washington or tend to create a monopoly therein.

Recommended Action:

We are not aware of any evidence that would support a finding that the effect of the Proposed Acquisition would be to substantially lessen competition in insurance in the State of Washington or tend to create a monopoly therein. The OIC's Order Approving (or Disapproving) the Proposed Acquisition should find that the anti-competitive standards of RCW 48.31B.015(4)(a)(ii) are satisfied and that as a result of the Proposed Acquisition, there will be no lessening of competition in insurance in the State of Washington and no creation of a monopoly therein.

Standard 4(a)(iii) – The financial condition of the Acquiring Parties is such as will not jeopardize the financial stability of SLIC or SNLIC, nor prejudice the interest of their policyholders.

While we were not asked to provide a recommendation with respect to this statutory standard, we did review some of the financial information during our overall analysis of the Proposed Acquisition. Baker and Daniels' financial review was limited to the materials furnished by the Parties to the Proposed Acquisition, discussions conducted with the representatives from executive management of all Parties, and information extracted from public sources. Our analysis of Standard 4(a)(iii) should be read only as a complement to the analysis performed by Rudmose and Noller Advisers, LLC.

Impact of Proposed Acquisition on White Mountains

Based on the information provided in the Form A Statement, the Acquiring Parties appear to have sufficient capital to finance the transaction. Approximately 75% of the purchase price for the acquired entities will be paid in cash or cash equivalents. The remainder (between \$300 to \$400 million) will be financed under an unsecured revolving credit facility.

Despite Occum's anticipated debt, its financial statement projections support both favorable financial leverage measures and interest coverage ratios (on both a statutory and GAAP basis). As of year end 2003, White Mountains' financial leverage position was excellent, with a debt-to-total-capital ratio of 19%.

White Mountains' insurance operations had their A.M. Best "A" (Excellent) financial strength rating affirmed shortly following the announcement of the Proposed

Acquisition. Based upon this affirmation by A.M. Best, the anticipated increase in financial leverage apparently will not jeopardize White Mountains' insurance ratings.

Impact of Proposed Acquisition on the Domestic Insurers

Under the new ownership, SLIC projects that it will actually have lower debt service requirements than it had under the Safeco umbrella. Although not consistent, past dividend payments by SLIC (exclusive of its operating subsidiaries) have averaged more than \$50 million annually since year-end 2000. The projected dividends of \$20 to \$40 million annually under SLIC's new ownership are below the dividends payments made to Safeco.

While the acquisition of SLIC received mixed reviews from the rating agencies, the Proposed Acquisition apparently has not been viewed as a negative by A.M. Best. Typically, in a transaction of this magnitude, rating agencies will place the acquired entities under review in order to perform further analysis, review business plan(s), understand the corporate strategy behind the proposed transaction, and review other related materials both from a quantitative and qualitative standpoint until the transaction is completed. A.M. Best's decision to hold steady in its rating presumably reflects its comfort level with the Proposed Acquisition's impact on SLIC's financial picture and SLIC's ability to facilitate a smooth transition under the new ownership. Some of the other rating agencies, however, downgraded SLIC a notch as a result of the announcement. To date, the rating agencies' public reactions to the Proposed Acquisition indicates that all of SLIC's financial strength ratings will continue to remain within investment-grade rating levels.

Based on our limited review, the financial condition of the Acquiring Parties does not appear to jeopardize the financial stability of the Domestic Insurers or prejudice the interest of their policyholders. In order to allay any concerns in this area, the OIC can continue to monitor the operations of the Domestic Insurers closely using its normal monitoring procedures, including requiring and reviewing updated business plans and other relevant materials. Such procedures could also include a periodic review of the following:

- (i) Loss reserve adequacy for OneBeacon Insurance Company (based on a review of the independent actuarial analysis).
- (ii) Loss reserve adequacy for Folksamerica Reinsurance Company (based on a review of the independent actuarial analysis).

- (iii) The debt rating for the senior notes held by Fund American Companies, Inc., the Delaware holding company that principally owns the insurance company operations. The potential concern here is that these notes are rated BBB- (Adequate) and Baa2 (Adequate) by Standard & Poor's and Moody's, respectively, and therefore, are a one-notch downgrade away from becoming non-investment grade.

Standard 4(a)(iv) – The plans or proposal that the Acquiring Parties have to liquidate the Domestic Insurers, sell their assets, consolidate or merge the Domestic Insurers with any person, or to make any other material changes in the Domestic Insurers' business or corporate structure or management, are not unfair nor unreasonable to policyholders of the Domestic Insurers and are not against the public interest.

The Form A Statement represents that the Acquiring Parties have no plans or proposals to make any material changes to the business or corporate structure or management of the Domestic Insurers, such as liquidating the Domestic Insurers, selling their assets, or consolidating or merging them with any other entities. This representation was reaffirmed throughout both our review of the submitted materials, as well as in interviews with the senior key personnel of both White Mountains and the Domestic Insurers.

While no new or different strategic business plan currently exists for the Domestic Insurers, representatives from both White Mountains and the Domestic Insurers indicated that the business strategy for the Domestic Insurers following the Proposed Acquisition calls for the Domestic Insurers to operate as autonomous, stand-alone entities with key executive management personnel remaining in place. This strategy was confirmed in our discussions with both the proposed Chief Operating Officer of SLIC and the Chief Executive Officer and President of SLIC.

In other words, SLIC will continue to focus on the same business product strategies and distribution channels under a different brand name. We understand that where new opportunities are created as a result of the new ownership, SLIC's management will act accordingly to take advantage of such opportunities.

Upon Closing, administrative and related service agreements that are in currently in place among the Domestic Insurers and their Safeco affiliates will be terminated. The Domestic Insurers will then enter into a Transition Services Agreement under which the

Acquired Companies will continue to receive such services from Safeco for a period of up to 12 months. We understand that executive management of both the Acquiring Parties and the Domestic Insurers contemplate that as the Domestic Insurers complete the transition from wholly owned Safeco subsidiaries to autonomous insurance companies, they will enter into agreements with certain White Mountain affiliates to provide specific services (e.g., tax sharing arrangements and investment advisory services). In addition, certain Change in Control Agreements are anticipated for Randy Talbot, Roger Harbin, and the to-be-named Chief Financial Officer.

During our conversations with representatives from the executive management of both the Domestic Insurers and White Mountains, we discussed the prior notice requirements of the Washington statutes applicable to certain affiliated transactions. Executive management acknowledged that some of these new agreements could trigger the Prior Notice of a Transaction – Form D Statement filing requirements under the Washington statute.

Recommended Action: We are not aware of any evidence that would support a finding that the plans or proposals that the Acquiring Parties have to liquidate the Domestic Insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management are unfair or unreasonable to policyholders of the Domestic Insurers or not in the public interest. The OIC's Order Approving (or Disapproving) the Proposed Acquisition should find that the statutory criterion of RCW 48.31B.015(4)(a)(iv) is satisfied and that the Acquiring Parties have no such plans or proposals for the Domestic Insurers.

Standard 4(a)(v) – The competence, experience, and integrity of those persons who would control the operation of the Domestic Insurers are not such that it would not be in the interest of policyholders of the Domestic Insurers or the public to permit the Proposed Acquisition.

During our analysis of the Proposed Acquisition, we were instructed by the representatives of the OIC that responsibility for review of the biographical affidavits and related information concerning Directors and Officers and greater than 10% owners, would be that of the OIC. Accordingly, we did not review any such materials.

During the course of our analysis of the other standards, however, we did have the opportunity to interview Randy Talbot and Roger Harbin, who will serve as CEO and President, and Chief Operating Officer, respectively, of SLIC after the Closing. Both have served and currently serve as executive officers of SLIC under the ownership of Safeco. We also interviewed representatives from White Mountains, including David Foy, Chief Financial Officer, and Reid Campbell, Treasurer. During the course of our interviews, as well as our overall review of the transaction documents, we did not become aware of anything that would give us concern that this statutory standard was not satisfied.

Because we were instructed to exclude the biographical affidavits from the scope of our review, we make no recommendation as to the competence, experience, and integrity of those persons who will control the operations of the Domestic Insurers.

Standard 4(a)(vi) – The Proposed Acquisition is not likely to be hazardous or prejudicial to the insurance-buying public.

The Proposed Acquisition does not appear to be hazardous or prejudicial to the insurance-buying public. In addition to all of the factors discussed above, we note the following:

First, the Proposed Acquisition is primarily a cash deal -- no significant debt is going to be incurred by the Acquiring Parties as a result of this transaction. Of the total anticipated purchase price of \$1.35 billion, the Acquiring Parties expect to borrow funds in the amount of approximately \$300 million, or less than 25%, of the total anticipated purchase price. Further, neither Berkshire Hathaway nor White Mountains is borrowing funds to purchase its ownership of Occum.

Second, according to the financial projections for SLIC, total operating expenses for the Domestic Insurers are expected to decrease after the Proposed Acquisition is complete. Such a reduction in operating expenses should prove beneficial to the financial bottom line of the Domestic Insurers over time.

Third, the Domestic Insurers and White Mountains represent that SLIC's projected statutory capital and surplus over the next three to five years is sufficient to support Occum's debt service requirements as well as sufficient to satisfy shareholder expectations. In addition, the key manager of SLIC and White Mountains expressed no concern that the projected dividend payout from SLIC to Occum will be unreasonable or beyond what is feasible for the Domestic Insurers to support financially.

While the Proposed Acquisition represents White Mountains' first major step into the life insurance industry, we believe that White Mountains' financial strength and significant experience in acquiring and integrating insurers into its organization will assist the Domestic Insurers in making the overall transition to a stand-alone insurance operation a successful one. The challenges facing the Domestic Insurers after the Proposed Acquisition are real – namely, the marketing of a new brand name and the establishment of a stand alone information system to support all of the acquired entities' systems needs; however, we are not aware of any evidence that should cause the Commissioner to conclude that these challenges will cause the Proposed Acquisition to be hazardous or prejudicial to the insurance-buying public.

Recommended Action:

We are not aware of any evidence that would support a finding that the Proposed Acquisition is likely to be hazardous or prejudicial to the insurance-buying public. The OIC's Order Approving (or Disapproving) the Proposed Acquisition should find that the statutory criterion of RCW 48.31B.015(4)(a)(vi) is satisfied.

X. FINAL CONCLUSION AND RECOMMENDATION

Based upon our analyses of the statutory criteria as set forth in RCW 48.31B.015(4)(a), our review of the documents set forth on Exhibit A, and our interview with representatives from White Mountains, SLIC and Safeco, we are aware of no evidence that would cause us to recommend to the Commissioner that he disapprove the Proposed Acquisition.

Accordingly, in addition to our recommendation set forth above, we recommend that the Proposed Acquisition be approved.

EXHIBIT A

Date Received	Document
5/27/04	RFP Contract
6/2/04	B&D engagement letter
(Printed from OIC website on 6/2/04)	Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer - Safeco Life Insurance Company and Safeco National Life Insurance Company (the Domestic Insurers) by Occum Acquisition Corp., White Mountains Insurance Group, Ltd. and White Mountains Re Group, Ltd. (the Applicants)
	Exhibits to Form A:
	1. Acquired Companies
	2. Stock Purchase Agreement, dated March 15, 2004 by and between Safeco Corporation, General America Corporation, White Mountain Insurance Group, Ltd. and Occum Acquisition Corporation.
	3. Non-Domiciliary Insurers and the Insurers
	4. White Mountains Insurance Group, Ltd. Organization Chart
	5. Structure of the Applicants as of the Closing
	6. List of Equity Investors
	7. List of current Directors and Officers of White Mountains
	8. Biographical Affidavits
	9. Form of Subscription Agreement
	10. Form of Shareholders Agreement
	11. Form of Occum Warrant
	12. BAS/FSI term sheet describing the Revolving Credit Facility
	13. Financial Statements of White Mountains Insurance Group, Ltd.
6/7/04	Revised and accepted engagement letter
6/11/04 (5/20/04)	Letter from Melvin N. Sorensen to James E. Tompkins dated May 19, 2004, delivering the following documents in response to Mr. Tompkins' letter dated April 26, 2004: Schedule A to Stock Purchase Agreement ("List of Acquired Companies") Exhibit A to Stock Purchase Agreement-Transition Services Agreement Exhibit B to Stock Purchase Agreement-Intellectual Property License

	Exhibit C to Stock Purchase Agreement-Transitional Trademark License
	Warrant Issuance Agreement between Occum Acquisition Corp and White Mountains Re Group, Ltd.
	Warrant Issuance Agreement between Occum Acquisition Corp and Berkshire Hathaway, Inc.
	March 1, 2004 IP Side Letter Agreements regarding use of certain marks
6/11/04 (4/20/04)	Disclaimer of Affiliation of Jack Byrne disclaiming affiliation of White Mountains Insurance Group, Ltd. (4/8/04)
	Disclaimer of Affiliation of Berkshire Hathaway, Inc. disclaiming affiliation of Occum Acquisition Corp (4/9/04)
	Disclaimer of Affiliation of Franklin Mutual Advisers, LLC disclaiming affiliation of White Mountains Insurance Group, Ltd. (4/8/04)
6/21/04	Name change requests and proposed amendments to the Articles of Incorporation for Safeco Life Insurance Company and Safeco National Life Insurance Company
6/21/04 & 6/22/04	Updated Organization Chart for White Mountians Insurance Group, Ltd.
6/24/04	Management discussion and analysis for Safeco National Life Insurance Company and Safeco Life Insurance Company for 2003
6/29/04	Letter from Melvin N. Sorensen dated June 29, 2004 responding to James E. Tompkins' letter request for information and documents dated June 24, 2004
6/29/04	Bermuda Certificate of Continuance of White Mountains Insurance Group, Ltd. dated October 27, 1999
	Bermuda Memorandum of Continuance of White Mountains Insurance Group, Ltd. dated October 25, 1999
	Occum Acquisition Corporation Parent Company Cash Flow Summary 2004-2008
	Safeco Life Insurance Companies Statutory Balance Sheets Five Year Projection 2004-2008
	White Mountains Insurance Group, Ltd Form 10-Q for the quarter ended March 31, 2004

Administration Agreement between Safeco Life Insurance Company and Employee Benefit Claims of Wisconsin, Inc. dated April 13, 2002

Administrative Services Agreement effective as of November 1, 1998 by and between Safeco Life Insurance Company and First Safeco National Life Insurance Company of New York

Amendment #1 to Administrative Services Agreement by and between Safeco Life Insurance Company and First Safeco National Life Insurance Company of New York

Pre- and post-transaction organizational charts of Safeco Corporation

Warrant Issuance Agreement between Occum Acquisition Corp. and White Mountains Re Group, Ltd. (duplicate)

Letter from Kenneth B. Schnoll, dated June 15, 2004, responding to the California Department of Insurance's questions and request for additional information

\$370,000,000 Credit Agreement dated as of June 14, 2004 among Occum Acquisition Corp., as the Borrower, the several lenders from time to time parties hereto, and Bank of America, N.A. as Administrative Agent

List of transition services to be provided under the Transition Services Agreement

6/29/04	Disclaimer of Affiliation of Berkshire Hathaway, Inc. disclaiming affiliation of White Mountains Insurance Group, Ltd.
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7/2/04	E-mail to James E. Tompkins from Melvin N. Sorensen regarding Biographical Affidavits
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7/2/04	Clarification response by White Mountains Insurance Group, Ltd.
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7/2/04	Letter dated July 2, 2004 to Roger Harbin of Safeco Life Insurance Company from James E. Tompkins requesting documents
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7/6/04	Response letter to Kenneth Schnoll dated July 3, 2004 from the California Department of Insurance
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Sales and Administration Agreement dated January 1, 2001 by and among Safeco Life Insurance Company, First Safeco National Life Insurance Company of New York, Safeco Securities, Inc., and Safeco Investment Services

Amendment No. 1 to Sales and Administration Agreement effective January 1, 2002 by and among Safeco Insurance Company, First Safeco National Life Insurance Company of New York, Safeco Securities, Inc., and Safeco Investment Services

Warrant Issuance Agreement between Occum Acquisition Corp. and Berkshire Hathaway, Inc. (duplicate)

Certificate of Incorporation of Occum Acquisition Corp.

By-Laws of Occum Acquisition Corp.

New York Exam Report on Folksamerica Reinsurance for the 4 year period of 1997-2000

Safeco Corporation Organizational Overview of Insurance Functional and Operational Areas

Dividend Information for Safeco Life Insurance Company and Safeco National Life Insurance Company

Pennsylvania Exam Report on One Beacon (3/04) for the 5 year period of 1997-2001

Safeco Life & Investments Projected Balance Sheets - PGAAP Basis 2004-2008

Safeco Life & Investments Projected Operating Earnings - PGAAP Basis 2004-2008

Safeco Life Insurance Companies Statutory Summary of Operations Five Year Projection 2004-2008

Occum Acquisition Corporation Parent Company Balance Sheet Summary 6/30//04 through 12/31/08

2002 White Mountains Insurance Group, Ltd Management Report

2003 White Mountains Insurance Group, Ltd. Management Report

The Companies Act of 1981 (Bermuda)

7/7/04	<p>Bye-Laws of White Mountains Insurance Group, Ltd.</p> <hr/> <p>Change in Control Agreement effective November 7, 2001 by and between Safeco Corporation, Safeco Life Insurance Company and Randall H. Talbot</p> <hr/> <p>Safeco Life Insurance Companies – Statutory Balance Sheet with 5-year projections</p> <hr/> <p>Business Plan for Safeco Life Insurance Company</p> <hr/> <p>The following were documents reviewed but not received:</p> <ol style="list-style-type: none"> 1. Annexes to the Transition Services Agreement 2. Seller Disclosure Letter (and Schedules) to the Stock Purchase Agreement 3. Presentation to rating agencies <hr/> <p>Business Plan for Safeco Life Insurance Company which was provided to the California Department of Insurance (Appendix F)</p> <hr/> <p>Statutory Balance Sheets showing a five-year projection for Safeco Life Insurance Companies (Appendix G)</p>
7/12/04	<p>Disclaimer of Affiliation of Franklin Mutual Advisers, LLC disclaiming affiliation from Occum Acquisition Corp. (4/8/04)</p> <hr/> <p>Cost Savings Projections for Safeco Life Insurance Company, including assumptions</p> <hr/> <p>Safeco Life Insurance Company Notification of Stockholders' Dividend</p> <hr/> <p>Final Notice of Hearing</p> <hr/> <p>E-mail from Stephanie Daley-Watson regarding Scheduling 2.10(b) to the Seller Disclosure Letter to the Stock Purchase Agreement</p> <hr/> <p>The following documents were reviewed but not received:</p> <ol style="list-style-type: none"> 1. Excerpt from Safeco Corporation Board of Directors Meeting Minutes dated March 15, 2004 2. Goldman Sachs Fairness Opinion
7/13/04	<p>Occum Acquisition Corp - Interest Expense Analysis Supplement No. 1 to Form A dated July 12, 2004</p> <hr/> <p>Supplemental Disclaimer of Control of Franklin Mutual Advisers, LLC, dated July 13, 2004, supplementing the Disclaimer of Affiliation, dated April 8, 2004, disclaiming affiliation of White Mountains Insurance Group, Ltd.</p> <hr/> <p>Supplemental Disclaimer of Control of Franklin</p>

Mutual Advisers, LLC, dated July 13, 2004, supplementing the Disclaimer of Affiliation, dated April 8, 2004, disclaiming affiliation of Occum Acquisition Corp.

Supplemental Disclaimer of Control of Berkshire Hathaway Inc., dated July 13, 2004, supplementing the Disclaimer of Affiliation, dated April 9, 2004, disclaiming affiliation of White Mountains Insurance Group, Ltd.

Supplemental Disclaimer of Control of Berkshire Hathaway Inc. dated July 13, 2004, supplementing the Disclaimer of Affiliation, dated April 9, 2004, disclaiming affiliation of Occum Acquisition Corp.
